

July 1999

Question 3

Susan is the Chief Operating Officer of WestTel, a telecommunications company. Felix is the Chief Executive Officer of CodeCo, a software company. About a year ago, Susan and Felix negotiated and signed a valid written contract under which WestTel purchased from CodeCo a license to use and sell software that prevents interception of telephone communications during transmission. Susan was assisted in the negotiations by Larry, an in-house attorney then employed by WestTel.

Throughout the negotiations, WestTel insisted that the license from CodeCo be an exclusive license for WestTel to use and sell the software in the national cellular telephone market. The only language bearing on the subject in the contract stated that, "WestTel shall have the use" of the software. The contract contained a clause stating that the written contract represents the entire agreement of the parties.

Susan was given oral assurances by Felix that the language quoted above would be interpreted by CodeCo to mean that WestTel was granted the exclusive license and that CodeCo would not license the software to others in the national cellular telephone market. Larry advised Susan that he was satisfied with Felix' oral assurances.

Last week, Susan saw an ad in a trade journal announcing that NewCom, a competitor of WestTel, was marketing a new national cellular phone service using the same anti-interception software produced by CodeCo. She immediately called Felix to inquire about the NewCom ad and remind him of WestTel's exclusive license. Felix confirmed that CodeCo had licensed the same software to NewCom and denied that WestTel had an exclusive license.

Susan then called NewCom and informed its chief executive officer that WestTel had the exclusive license for the use of the software and that, if NewCom went forward with its plan to use the software in the national market, WestTel would sue NewCom. She was told that if she wanted to discuss it further she should talk to Larry, NewCom's in-house attorney who had negotiated the NewCom/CodeCo contract.

It turns out that at the time Larry was assisting Susan with the WestTel/CodeCo negotiations, NewCom had contacted Larry and offered him a job. NewCom knew when it offered him the job that Larry was participating in the WestTel/CodeCo negotiations. Larry quit WestTel about six months ago and joined NewCom's legal staff.

When Susan confronted Larry and reminded him of his advice about the exclusivity of the WestTel/CodeCo deal, Larry responded only with, "Well, you signed it."

1. What theories, if any, might WestTel reasonably assert against CodeCo to establish and enforce a right to an exclusive license and what is the likely outcome on each theory? Discuss.

2. Should WestTel prevail in actions for tortious interference with the WestTel/CodeCo contract against:
 - a. CodeCo? Discuss.
 - b. NewCom? Discuss.
 - c. Larry? Discuss.
3. What, if any, ethical duties has Larry breached? Discuss.

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ANSWER A TO QUESTION 3

1) Exclusive License Theories

Reformation

WestTel may seek to reform the contract to reflect the parties true intentions. WestTel will argue that the parties intended an exclusive license and such intention was not reduced to writing.

CodeCo will argue that Parole Evidence bars introduction of any statements made prior to or contemporaneous with the writing because the clause in the contract states that it is a complete integration.

WestTel will counter by arguing the Parole Evidence should be admitted to interpret the meaning of the words "WestTel shall have the use." A court is likely not to allow Parol Evidence in because an exclusive license contract would naturally reflect such an agreement specifically, and the plain meaning of the words used does not indicate exclusivity.

Fraud in the inducement

WestTel will argue that CodeCo induced the agreement by fraud and misrepresentation. Here, Susan was given oral assurances by Felix that WestTel would have an exclusive license.

Susan reasonably relied on Felix's assurances. Felix should have known that Susan would rely on such statements.

Furthermore, Susan's inquiry to Felix about the contractual terms indicate that WestTel was concerned and probably would not have entered into the deal but for Felix's fraudulent statements.

Thus, it would be equitable to bind CodeCo to the deal pursuant to WestTel's exclusive license understanding.

CodeCo is at fault and should not benefit from its own fraud at the expense of the innocent party.

Specific Performance

A court will grant specific performance if there is a valid contract, which is present here.

Money damages (legal damages) must be inadequate. It is not clear whether CodeCo's software is sufficiently unique to find that the legal remedy is inadequate.

The terms must be sufficiently clear and definite. This requirement is lacking here unless the court first allows the contract to be performed or interpreted according to WestTel's terms.

Specific performance must be feasible. The court here could give a negative injunction ("Don't license to anyone but WestTel"), and would not be burdened by excessive supervisory duties.

Mutuality exists because both parties could see specific performance. However, modernly, even mutuality did not exist, courts now use the "Security of Performance" as a substitute.

Nevertheless, unless the problems of uniqueness and definite terms favor WestTel, they probably will not prevail in a specific performance action.

2) Tortious Interference

Tortious interference is the deliberate inducement to breach a contract done by a third party who is aware of the existence of a contract between the parties.

The remedy is either all foreseeable damages as a result of breach or all remedies that a (P) would have against a breaching party.

CodeCo

CodeCo will not be liable for two reasons.

First, CodeCo is not a third party and was not induced in anyway to breach.

Second, it is unclear whether a breach has occurred given the arguments about the terms. However, regardless of the breach, CodeCo was not a third party that induced breach.

NewCom

NewCom may be liable if they induced CodeCo to breach the contract with WestTel.

However, liability will turn on whether there was a breach to speak of stated above. If NewCom believed reasonably that no breach would occur, they will not be liable.

However, since Larry negotiated their deal, NewCom may have known through Larry that the deal was exclusive and if this is true, they are liable.

Larry

Larry is liable because he knew of the existence of the contract. He also knew that CodeCo had assured WestTel that the license was exclusive.

Thus, by helping NewCom, Larry induced a breach of contract. He will be liable for either of the two remedies previously stated.

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3)

Ethical Violations

Duty of Loyalty

A lawyer must be loyal to his client's interests and avoid actual/potential conflicts of interest.

When Larry took the NewCom job and left WestTel, an actual conflict arose. The two companies were competitors and sought the same software.

Larry should not have accepted the job at NewCom.

At the very least, Larry should have quit when asked to negotiate the NewCom/CodeCo deal.

Larry's failure to quit/refuse the job/or disclose the actual conflicts in writing to both WestTel and NewCom was a clear ethical violation.

Duty of Confidentiality

Larry was in-house counsel for WestTel and had an ethical duty to keep all information learned during representation confidential.

When Larry began working for NewCom, and negotiated a licensing deal with CodeCo, it is inevitable that he either revealed confidential information about WestTel's deal with CodeCo to NewCom, or at a minimum, used such confidential information to NewCom's advantage, and to the detriment of his former client WestTel.

Larry should have declined representation of NewCom or quit as soon as the conflict was actual, or at a minimum discussed to both parties in writing and gotten a waiver.

Larry violated his duty of confidentiality to WestTel.

Duty to Third Parties

By doing a new deal with CodeCo on behalf of NewCom, Larry may have exposed CodeCo to a lawsuit from WestTel.

Larry had a duty to act fairly with third parties such as CodeCo and not to contribute to the possibility of a lawsuit from either his former or current client.

ANSWER B TO QUESTION 3

I. THEORIES FOR THE ENFORCEMENT OF THE EXCLUSIVE LICENSE

EXCLUSIVE LICENSE CLAUSE: If WestTel (W) wishes to assert a contract claim against CodeCo (C) it must successfully incorporate the exclusive license term into the contract. The facts indicate that the agreement between W and C was in writing and that the writing contained an integration clause. If the court determines that the integration clause is effective then the parole evidence rule will apply.

PAROLE EVIDENCE: The parole evidence rule prevents the introduction of extrinsic evidence to prove contracts additional or inconsistent contract prior or contemporaneous oral terms if the contract is in writing and fully integrated. Here, the facts do not provide adequate information to resolve whether the contract was fully integrated. However, even in a fully integrated contract evidence of oral contemporaneous discussion may be offered to explain ambiguous terms.

Here, W will argue that the language in the contract "WestTel shall have the use" of the software is ambiguous with respect to its exclusivity. CodeCo will argue that the meaning of the terms is plain on its face. The court will consider evidence of the industry custom and practice in reaching its decision. As the facts indicate that WestTel is a company in the telecommunications industry and that it is a national market, the court might determine that an exclusive license is the industry standard. Furthermore, the court will consider whether the price paid by W for the license is commensurate with an exclusive national license or a nonexclusive license. If the court determines that the term is ambiguous, it will admit the oral evidence of its meaning into evidence.

The oral representations of CodeCo and its agents will be considered nonhearsay party admissions and therefore are admissible evidence.

REFORMATION: A party may seek reformation of a contract if its terms do not reflect the original intent of the parties either because of a mistake of law or fact material to the contract or because of fraud. The facts are not sufficient to establish a case for reformation conclusively. However, Susan may argue that she intended all along to negotiate for an exclusive national license and that she made this intention clear. Therefore, the contract may be reformed to include the terms necessary to create an exclusive national license.

Additionally, the facts indicate the possibility that the contract was induced by fraud on the part of Larry, NewCom and CodeCo. Apparently Larry and NewCom had engaged in discussions at the time the CodeCo/WestTel contract was negotiated. If Susan can establish that WestTel knew that Susan wanted a national exclusive license but fraudulently induced her to execute the contract without adequate language, Susan will have grounds to reform the contract.

RESCISSION: Rescission of the contract will only be available on the above grounds. However, rescission would cancel the contract entirely, allowing W to recover any

consideration it paid for the license. However, as W wants to enforce the agreement this is not an adequate theory.

SPECIFIC PERFORMANCE: In the event that W establishes the national exclusive license, it should seek specific performance of the contract. Specific performance requires a showing that the remedy at law is inadequate, that the terms are definite and certain, that an order would be feasible, there is mutuality, and that there are no effective defenses.

Here, W will be able to establish a case for specific performance. The remedy at law is inadequate because damages will not fully compensate W as it will allow its competitor to compete more effectively and it may lose market share. Susan will argue that part of what W bargained for was the security that its competitors would not have the technology. The terms of the order could be definite, certain, and feasible and the court would order CodeCo to deny a license with NewCom. The mutuality rule is satisfied because both WestTel and CodeCo have specific performance available to them. Finally, CodeCo has not equitable defenses.

2. TORTIOUS INTERFERENCE

A claim for tortious interference must establish that the defendant wrongfully interfered with an existing contract with a third party. It is not enough to show that a competitor merely engaged in competitive acts.

CLAIM AGAINST CODECO: W does not have a claim against CodeCo for tortious interference because CodeCo was the other party to the contract. The facts do not indicate that CodeCo interfered with a contract between WestTel and some other party. In fact, the facts indicate that WestTel may have attempted to interfere with its contract with NewCom. Therefore WestTel will not prevail for this cause of action against CodeCo.

CLAIM AGAINST NEWCOM: The facts are not sufficient to resolve whether NewCom is liable to WestTel for this tort. The tortious interference requires some act of interference. Here, the facts indicate that NewCom engaged in communications with Larry, WestTel's counsel, that it subsequently hired Larry, and that it sought and obtained a license from CodeCo. Susan will argue that the acts were wrongful and will assert that NewCom knew about the negotiations with CodeCo and that even though she successfully executed a contract with CodeCo that contract was insufficient because NewCom actively solicited Larry's help to ensure that the contract with CodeCo would not be exclusive. If she can prove these assertions she will probably prevail. NewCom will argue that their conduct was merely competitive and not wrongful. If they can show that they did not attempt to interfere with the negotiations between CodeCo and WestTel, NewCom will prevail on this claim.

CLAIM AGAINST LARRY: WestTel's claim against Larry is stronger. Here the facts indicate that Larry was aware of the negotiations with CodeCo and that he was simultaneously

communicat-

ing, in breach of his ethical duty, with NewCom. These facts strongly suggest that he falsely advised Susan with respect to the sufficiency of the language in the contract and therefore that Larry wrongfully interfered in her contract with CodeCo.

3. LARRY ETHICAL BREACHES

DUTY OF COMPETENCY: An attorney owes a duty of competency to this client. This duty requires that an attorney exercise the standard of care of a competent attorney in his field. Here, Larry gave advice concerning the WestTel/CodeCo contract. Larry breached this duty if he was not sufficiently familiar with contract law and drafting principles to advise Susan. Furthermore, Larry breached his duty of care by advising Susan that the clause would be effective. Although it is possible that Susan may prevail on the contract, the language of the contract is clearly ambiguous. Given the absolute clarity of Susan's intent with regard to an exclusive license and the likelihood that such a provision would be litigated, Larry is liable to Susan if a competent lawyer would have advised her to make the language more clear by including the words "exclusive" and would have advised her about the effects of the parole evidence rule.

DUTY OF CONFIDENTIALITY: A lawyer owes a duty to keep any communications with his client in absolute confidence unless the communications involve a future crime or fraud or unless they relate to a malpractice claim. None of the exceptions apply in this situation. The facts indicate that Larry may have disclosed information to NewCom about the contract negotiations. Such a disclosure would be malpractice and would subject Larry to discipline.

Furthermore, Larry owed WestTel a continuing duty of confidentiality not to disclose confidential information even after he began to work for NewCom. Therefore, he will be liable to WestTel and subject to discipline for any disclosure after working for NewCom.

DUTY OF LOYALTY: An attorney owes a duty of loyalty to his client. An attorney must not assume an adverse position to a client or former client. Here, the facts indicate that Larry went to work for NewCom. While working for NewCom, his ongoing duty of loyalty prevents him from working on a project that is adverse to WestTel. A new negotiation with CodeCo would qualify if it involved any confidential information that Larry acquired while working at WestTel.

IMPUTED DISQUALIFICATION: Additionally, an attorney's disqualification will be imputed to all other attorney's working at that attorney's firm. Where as here, the firm is not a law firm, a disqualification will be imputed where the lawyers share office space and resources. Therefore, here Larry's disqualification would be imputed to any other lawyer working for NewCom under these conditions.

FRAUD: The facts do not clearly indicate that Larry was involved in a fraudulent

attempt to misadvise Susan with respect to the contract. However, if he was involved in a fraud, it would be an ethical violation in addition to a tort.